

The Honorable Tom Harkin
Chairman
Subcommittee on Labor, Health and Human Services,
Education, and Related Agencies
United States Senate
Washington, DC 20510

Dear Senator Harkin:

Over the years you have expressed concern that Medicare pays more than other payers for many medical supplies. At your request, we have compared Medicare payment rates for durable medical equipment and supply items to the rates of other payers. We have also provided an estimate of potential savings if the Medicare program were to adopt the rates of those payers. Our findings are enclosed.

After consultation with your staff, we selected 16 medical equipment and supply items for our review. These 16 items accounted for over \$1.7 billion (26 percent) of the \$6.8 billion Medicare paid for medical equipment and supplies in 2000.

Our current work confirms findings from previous reviews that Medicare pays higher than market prices for some items. The Centers for Medicare & Medicaid Services (CMS) also believes that Medicare and its beneficiaries pay more than they should for certain medical equipment and supplies. The CMS has attempted to adjust Medicare payments rates that it believed were excessive. For 9 of the 16 items in our current study, CMS has either tried to reduce the price through its inherent reasonableness authority, or the price has been reduced in its competitive bidding demonstrations. However, as required by Congress, CMS must finalize the inherent reasonableness regulation prior to applying the inherent reasonableness process. As of this date, CMS has not finalized the regulation.

We hope you will find this information useful in your continuing work on Medicare pricing of medical equipment and supplies. If you would like to discuss this matter further, please contact me, or have your staff call Kimberly Brandt at (202) 205-9523.

Sincerely,

Janet Rehnquist
Inspector General

Enclosure

Price Comparisons for 16 Medical Equipment and Supply Items

We compared Medicare prices for 16 medical equipment and supply items with prices from the Department of Veterans Affairs (VA), State Medicaid agencies, Federal employee health plans (FEHPs), and retail suppliers. Twelve of these items were researched by Senator Harkin's staff in 1996. The remaining 4 were items that had large total Medicare payments in 2000. These 16 items accounted for over \$1.7 billion (26 percent) of the \$6.8 billion Medicare paid for medical equipment and supplies in 2000.

Four of 16 items in our analysis (saline solution, enteral feeding supply kits, semi-electric hospital beds, and standard wheelchairs) have been, or are currently, in Medicare's competitive bidding demonstrations for durable medical equipment, prosthetics, orthotics, and supplies. The table below provides a description for each of the 16 codes reviewed.

Medicare Code	Description
A4253	Blood glucose test or reagent strips for home blood glucose monitor, per 50 strips
A4259	Lancets, per box of 100
A4323	Sterile saline irrigation solution, 1000 ml
B4035	Enteral feeding supply kit; pump fed, per day
E0135	Walker, folding (pickup), adjustable or fixed height
E0163	Commode chair, stationary, with fixed arms
E0178	Gel or gel-like pressure pad or cushion, nonpositioning
E0180	Pressure pad, alternating with pump
E0181	Pressure pad, alternating with pump, heavy duty
E0260	Hospital bed, semi-electric (head and foot adjustment), with any type side rails, with mattress
E0277	Powered pressure-reducing air mattress
E0570	Nebulizer, with compressor
E0730	TENS (transcutaneous and/or neuromuscular electrical nerve stimulators), four lead, larger area/multiple nerve stimulation
E0776	IV pole
K0001	Standard wheelchair
K0011	Standard-weight frame motorized/power wheelchair with programmable control parameters for speed adjustment, tremor dampening, acceleration control and braking

This limited study was not designed to meet the rigorous inherent reasonableness standards for revising Medicare payment rates as defined by Section 4316 of the Balanced Budget Act of 1997. However, we believe that this study provides evidence that health care consumers, Federal health insurance plans, State Medicaid agencies, and the VA can pay less than Medicare for some of the medical equipment

and supplies in our review. This conclusion is also corroborated by our past work and previous U.S. General Accounting Office (GAO) reports.

BACKGROUND

Numerous studies indicate that Medicare payment rates for certain medical equipment and supplies are too high. The Office of Inspector General (OIG) has issued reports pointing out that Medicare payments for medical equipment and supplies may be excessive. For example, a December 1992 report, “Durable Medical Equipment: Review of Medicare Payments for Home Blood Glucose Monitors,” disclosed that excessive Medicare payments were made for monitors because: (1) the claims were not being reduced by manufacturers’ rebates; (2) the fee schedules are high compared to available market prices; and (3) the fee schedules could be further reduced by basing the fee schedules on lower priced models and not submitted charges.

In a May 1996 report, “Payments for Enteral Nutrition: Medicare and Other Payers,” the OIG found that other payers, Medicaid, the VA, and consumers were often paying less than Medicare for enteral nutrition products. A May 1997 report, “Medicare Payments for Enteral Nutrition Therapy Equipment and Supplies in Nursing Homes,” found that the Medicare payment policies for enteral nutrition therapy equipment and supplies failed to capitalize on market forces and efficiencies available to nursing facilities, which could substantially reduce cost. In a July 1997 report, “Medicare Reimbursement for Parenteral Nutrition,” we found that the Medicare reimbursement for certain parenteral nutrition codes were often higher than Medicaid agencies, Medicare risk-contract HMOs, and substantially higher than the manufacturers’ contract prices.

In its May 1998 report, “Medicare: Need to Overhaul Costly Payment System for Medical Equipment and Supplies,” GAO noted that their prior studies have documented that Medicare pays higher than market rates for some items. The May 1998 GAO report identified two underlying problems with Medicare’s payment system. First, CMS does not know specifically what products Medicare is paying for when its contractors process claims for medical equipment and supplies. Medical equipment and supply products with similar functions and purposes are grouped together, with Medicare paying the same amount for any product in the group. These groups of medical equipment and supply products often represent a broad range of product types, quality, and market prices, but claims only indicate a product’s group and not the specific item. Second, GAO found that the fee schedule allowances for medical equipment and supplies are often out of line with current market prices. Thus, Medicare payment levels may not reflect changes in the marketplace that could significantly affect medical equipment and supply prices.

Attempts by CMS to Lower Prices

The CMS has attempted to use the inherent reasonableness process to adjust Medicare payment rates it believed to be excessive. In 1998, CMS’ Durable Medical Equipment Regional Carriers (DMERCs) surveyed retail prices for medical equipment and supply items that they suspected had excessive payment rates. In September 1998, the DMERCs notified suppliers that they proposed to adjust Medicare payments for eight groups of products (two of which we reviewed for this study, blood glucose test strips and lancets). The DMERCs solicited comments on the proposal. Following an

outpouring of concern from industry groups representing different manufacturers and providers of medical equipment and supplies, CMS suspended the proposed payment reductions.

In the August, 13 1999 *Federal Register*, CMS issued a proposed notice to implement special payment limits for five items of durable medical equipment and one prosthetic device to replace the current fee schedule amounts for these items. The CMS had determined that the Medicare fee schedule amounts for the six items were not inherently reasonable because the items were grossly excessive relative to the amounts paid for these items by the VA. (Three of the items were among the 16 we reviewed for this study: folding walker, stationary commode chair, and TENS unit.) The CMS believed that to make a valid comparison between Medicare and VA payments, a price markup must be applied to the VA wholesale prices to approximate retail prices. The CMS increased the median VA prices by a markup of 67 percent. After applying the markup, the proposed new Medicare prices would range between 22 to 50 percent below the 1998 Medicare floor price or between 34 to 57 percent below the 1998 Medicare ceiling price.

In November 1999, the Congress passed legislation prohibiting CMS from using its inherent reasonableness authority until a GAO report on the subject was issued and a final rule had been published that responded to the GAO report and to public comments.

In July 2000, the GAO issued a report on CMS' use of the inherent reasonableness process. In that report, the GAO found that there was sufficient evidence to indicate that Medicare overpays for most of the items identified by the DMERCs in 1998, and that the use of the inherent reasonableness process for some items was justified. For other items, GAO questioned the rigor that carriers used in their collection of pricing data. The GAO recommended that CMS define what grossly excessive or deficient prices were in the final rule on the inherent reasonableness process. It also recommended that CMS develop and implement a more structured and consistent data collection sampling and survey methodology for inherent reasonableness reviews. In addition, GAO recommended that CMS monitor patient access to products with reduced payments. As of this time, the final rule for inherent reasonableness has not been promulgated.

CMS' Use of Competitive Bidding

The Balanced Budget Act of 1997 authorized CMS to enter into competitive bidding demonstrations for some categories of durable medical equipment, prosthetics, orthotics, and supplies. Using this authority, CMS conducted multiple competitive bidding demonstrations with promising results. The CMS indicates a potential savings estimate for Medicare and Polk County beneficiaries of nearly \$1.3 million annually, or 17 percent less than payments that would have been incurred under the year 2000 Medicare fee schedules. In the first demonstration, CMS selected five categories of durable medical equipment, prosthetics, orthotics and supplies for competitive bidding in Polk County, Florida. Payments under the first demonstration began on October 1, 1999 and were in effect through September 30, 2001. Medicare implemented the second round of competitive bidding in Polk County

in October 2001 for four product categories. Payments under this demonstration will remain in effect through September 30, 2002. Medicare implemented an additional competitive bidding demonstration in San Antonio, Texas from February 1, 2001 through December 31, 2002 for five product categories. The CMS competitive bidding authority expires at the end of 2002.

METHODOLOGY

Selection of Items. We reviewed 12 Medicare codes that Senator Harkin's staff reviewed in 1996 and an additional 4 Medicare codes that had large total Medicare payments in 2000, for a total of 16 codes.

Medicare Prices. We used the January 2002 Medicare fee schedules to determine the Medicare purchase prices for the 16 Medicare codes in our sample. Since fee schedule rates for the same codes differ among States, we calculated the median rate from the fee schedule rates for all 50 States, Puerto Rico, and the Virgin Islands. A Medicare code represents a certain type of item (e.g., wheelchair). For each item type, there may be a broad range of product types, quality, and market prices. However, as long as the product fits the Medicare code description, the supplier is allowed the fee schedule rate for that particular code.

Seven of 16 codes in our sample are in Medicare's capped rental payment category. Medicare reimbursement for the rental of these items is capped at 15 months. However, Medicare beneficiaries have the option to own these items after a specific period of continuous rental. We used the Medicare formula to calculate how much these items would cost if beneficiaries chose to own them. For all but one of the items, the least expensive purchase price is equal to 13 months of rental, and for the remaining item (motorized wheelchair) it is equal to 10 months of rental. Six codes in our sample are items that may be purchased new or used. In these cases, we used the fee schedule purchase price for new items. The remaining three codes in our sample are supplies that cannot be re-used and there is only one possible purchase price for these items in the fee schedule.

We also gathered information from past and current CMS competitive bidding demonstration projects in Polk County, Florida and San Antonio, Texas. We reviewed the list of items included in the demonstrations to determine if any of the 16 items we reviewed had competitive bid prices.

Price Comparison. For the items reviewed, we calculated the median price from each source (VA, Medicaid agencies, FEHPs, and retail suppliers) and compared it to Medicare's median price. We then calculated the percentage difference between the Medicare price and the median prices of each of the four sources (i.e., we found the difference between the Medicare price and the other source's price, and divided the difference by the Medicare price). We multiplied this percentage by the total Medicare payments for the item in 2000 to get an estimated annual dollar savings. Appendix 1 includes the total Medicare payments in 2000 for each of the reviewed items. A summary of prices and a summary of

potential Medicare savings are provided in Appendix 2. The comparisons of Medicare prices to prices from the four sources are included in Appendix 3.

VA Prices. We sent a request to the VA's National Acquisition Center to provide us with current Federal Supply Schedule prices for equipment and supplies that matched the description of our 16 Medicare codes. The National Acquisition Center handles the largest combined contracting activity within the VA. Through sealed bids, non-competitive and competitive negotiations, the Center awards contracts for recurring items used throughout the Federal health care system. The Federal Supply Schedule is a service of the National Acquisition Center which handles specific commodities including, but not limited to, pharmaceuticals, medical equipment and supplies, patient mobility devices, and test kits.

The National Acquisition Center determined which vendor contracts might contain products that matched the descriptions for 14 of the codes, and sent us the contract pages containing prices. For the two remaining codes (A4253 - blood glucose test strips, and A4259 - lancets), we obtained Federal Supply Schedule prices from the VA's Pharmacy Benefit Management website. The website contains a database of prices which is updated daily. From the available VA data, we identified items that we believed matched the descriptions of our Medicare codes. We did not analyze actual VA paid claim data for this review.

Unlike Medicare, which is a payer of services and not a provider of services, the VA generally obtains medical equipment and supplies by direct acquisition from manufacturers and wholesalers. The VA then provides the items to veterans through its network of medical centers. The prices that the VA pays for medical equipment and supplies provide a rough estimate of the wholesale prices that large suppliers pay because the VA is a large purchaser. These prices do not take into account the Medicare supplier costs associated with getting an item to a Medicare beneficiary.

In the August 13, 1999 *Federal Register*, when CMS compared Medicare prices to median VA prices, they added a 67 percent markup to the VA prices. The CMS developed the 67 percent markup by reviewing pricing information on medical equipment and devices submitted by the industry to CMS from 1989 to 1998. When submitting a request for a new equipment code, CMS requires the requester, usually the manufacturer, to list the wholesale and suggested retail prices for the item. The CMS determined that the median markup from this data was 67 percent.

In addition to comparing the Medicare price to the median VA price without a markup, we have also compared it to the median VA price with a 67 percent markup. We used CMS' 67 percent figure since it was the only available data concerning a potential markup percentage. We did not verify or update the CMS markup percentage, nor do we advocate this as the appropriate markup to VA prices. We have presented the 67 percent markup price comparison solely to provide an example of possible savings, which take into account the distinction between Medicare as a payer and the VA as a purchaser of medical equipment and supplies.

Medicaid and Federal Employee Health Plan Prices. We sent requests to 52 State Medicaid agencies and 58 fee-for-service FEHPs to provide current reimbursement prices for items matching the description of the 16 Medicare codes. We received responses from 40 Medicaid agencies and 30 FEHPs. Not all of the respondents could provide rates for every item.

Retail Prices. For each of the 16 codes, we identified Medicare suppliers that received the highest payments for that particular code in 2000. For each code we obtained retail prices from 10 suppliers. We asked suppliers how much it would cost to buy the item, in cash, including tax and delivery charges. For three of the 16 items: blood glucose test strips for home blood glucose monitors, lancets, and enteral feeding supply kits for use with pumps, we requested more than one price. Generally, blood glucose test strips are made to fit specific brands of equipment. Therefore, prior to calling suppliers, we identified two commonly-used brands of test strips. We then requested the prices of these two brands of test strips from suppliers. Blood glucose test strips and lancets are often sold through mail order which may result in different prices than retail prices. Therefore, we asked for the mail order as well as the retail price. For enteral feeding supply kits, we identified two supply kits billed under code B4035, and then we asked suppliers for the prices of both supply kits. In addition, the enteral feeding supply kits are covered by Medicare on a per day basis, while the prices we were quoted were per unit. In our analysis, we compared the per-unit price to Medicare's per-day price.

FINDINGS

We found that prices from all 4 sources (VA, Medicaid agencies, FEHPs, and retail suppliers) were lower than Medicare rates for 8 of the 16 items (lancets, sterile saline irrigation solution, heavy duty alternating pressure pad with pump, semi-electric hospital bed, powered pressure-reducing air mattress, nebulizer with compressor, IV pole, and standard wheelchair). For 3 of these items (powered pressure-reducing air mattress; nebulizer with compressor; and IV pole), each of the source's median prices was at least 10 percent less than Medicare's median reimbursement price. For an additional 4 items (lancets, sterile saline irrigation solution, folding walker, and semi-electric hospital bed), 3 of the 4 sources had prices that were at least 10 percent less than Medicare.

VA Prices. For 15 of the 16 items reviewed, Medicare's reimbursement amount was greater than the VA median price. We could not find a VA price for the remaining item. The VA median prices ranged from 31 to 88 percent less than the Medicare prices. If Medicare were to adopt these median VA prices, maximum potential total savings would be \$958 million. However, the potential savings would be less if a markup were added to the median VA price before comparing it to the Medicare reimbursement amount. For example, if Medicare added a markup of 67 percent, as CMS did in their proposed notice in the August 1999 *Federal Register*, the potential savings would be \$440 million.

Medicaid Prices. The Medicare reimbursement was more than the Medicaid reimbursement for 15 of the 16 items reviewed. Medicare reimbursed the same as Medicaid for the remaining item. Median

Medicaid prices ranged from 0 to 24 percent less than Medicare prices. If Medicare had used median Medicaid prices for reimbursement on these items, the program could have saved \$193 million.

Retail Prices. Medicare prices were more than the median retail price for 10 of the 16 items. These median prices ranged from 2 to 73 percent less than the Medicare price for the item. Potential Medicare saving would reach \$84 million if Medicare used median retail prices for reimbursement on the 16 items.

Federal Employee Health Plan Prices. Medicare reimbursed more than the FEHP median price for all but one of the items reviewed. For the 15 items with reimbursement rates lower than Medicare, the FEHP prices ranged from 3 to 22 percent lower. If Medicare were to reimburse based on FEHP prices, the program could save \$118 million.

Competitive Bidding Demonstration Prices. Four of the items we reviewed were included in CMS' demonstration projects. All of the competitive bid prices for these items were lower than the Medicare median price and the local fee schedule prices for these items. The competitive bid prices were 8 to 33 percent less than the Medicare reimbursement rates for these 4 items.

CONCLUSION

Our current work is consistent with previous reviews, which have found that Medicare pays higher than market prices for some items. The CMS also believes that Medicare and its beneficiaries pay more than they should for certain medical equipment and supplies. The CMS has, on numerous occasions, attempted to adjust Medicare payments rates that it believed were excessive. For 9 of the 16 items in our current study, CMS has either tried to reduce the price through its inherent reasonableness authority, or the price has been reduced in its competitive bidding demonstrations. However, as required by Congress, CMS must promulgate an inherent reasonableness regulation prior to using the authority. As of this date, CMS has not finalized the regulation.

A P P E N D I X 1

Total Medicare Payments and Descriptions for 16 Medical Equipment and Supply Codes

TOTAL MEDICARE PAYMENTS AND DESCRIPTIONS FOR 16 MEDICAL EQUIPMENT AND SUPPLY CODES

Medicare Code	Item Description	Total Medicare Payments (Year 2000)
A4253	Blood glucose test or reagent strips for home blood glucose monitor, per 50 strips	\$496,273,994
A4259	Lancets, per box of 100	\$52,743,530
A4323	Sterile saline irrigation solution, 1000 ml	\$893,317
B4035	Enteral feeding supply kit; pump fed, per day	\$212,064,573
E0135	Walker, folding (pickup), adjustable or fixed height	\$15,873,507
E0163	Commode chair, stationary, with fixed arms	\$40,779,098
E0178	Gel or gel-like pressure pad or cushion, nonpositioning	\$2,728,185
E0180	Pressure pad, alternating with pump	\$2,420,631
E0181	Pressure pad, alternating with pump, heavy duty	\$1,333,753
E0260	Hospital bed, semi-electric (head and foot adjustment), with any type side rails, with mattress	\$279,775,167
E0277	Powered pressure-reducing air mattress	\$103,334,038
E0570	Nebulizer, with compressor	\$50,838,299
E0730	TENS (transcutaneous and/or neuromuscular electrical nerve stimulators), four lead, larger area/multiple nerve stimulation	\$4,721,867
E0776	IV pole	\$10,291,480
K0001	Standard wheelchair	\$100,171,192
K0011	Standard-weight frame motorized/power wheelchair with programmable control parameters for speed adjustment, tremor dampening, acceleration control and braking	\$359,499,239
	TOTAL	\$1,733,741,870

Sources: American Medical Association, Healthcare Common Procedure Code System, Medicare National Codes, 2000; Centers for Medicare & Medicaid Services, National Claims History File, 2000

APPENDIX 2

SUMMARY TABLES

**Summary of Medicare Prices Compared to VA, Medicaid,
Retail, and FEHP Prices for 16 Items**

**Summary of Potential Medicare Savings on 16 Medical
Equipment and Supply Items**

SUMMARY OF MEDICARE PRICES COMPARED TO VA, MEDICAID, RETAIL, AND FEHP PRICES FOR 16 ITEMS

Medicare Code	Median Medicare Price	Median VA Price without Markup	Percentage Difference Between Medicare and VA without Markup	Median VA Price with 67% Markup	Percentage Difference Between Medicare and VA with 67% Markup	Median Medicaid Price	Percentage Difference Between Medicare and Medicaid	Median Retail Price	Percentage Difference Between Medicare and Retail	Median FEHP Price	Percentage Difference Between Medicare and FEHP
A4253	\$38.32	\$19.50	49.11%	\$32.57	15.01%	\$35.81	6.55%	\$42.42	-10.70%	\$36.75	4.10%
A4259	\$12.68	\$8.69	31.47%	\$14.51	-14.43%	\$10.95	13.64%	\$7.40	41.64%	\$12.00	5.36%
A4323	\$8.68	\$1.02	88.25%	\$1.70	80.41%	\$7.33	15.55%	\$6.25	28.00%	\$7.95	8.41%
B4035	\$10.67	\$2.40	77.51%	\$4.01	62.42%	\$10.67	0.00%	\$9.05	15.18%	\$11.30	-5.90%
E0135	\$83.43	\$39.36	52.82%	\$65.73	21.22%	\$69.57	16.61%	\$95.60	-14.59%	\$73.42	12.00%
E0163	\$109.74	\$32.30	70.57%	\$53.94	50.85%	\$89.16	18.75%	\$112.50	-2.52%	\$100.00	8.88%
E0178	\$120.74		N/A		N/A	\$101.87	15.63%	\$118.31	2.01%	\$111.90	7.32%
E0180	\$227.01	\$94.20	58.50%	\$157.31	30.70%	\$222.17	2.13%	\$287.50	-26.65%	\$210.20	7.40%
E0181	\$251.58	\$71.00	71.78%	\$118.57	52.87%	\$230.40	8.42%	\$242.05	3.79%	\$231.65	7.92%
E0260	\$1,754.55	\$762.10	56.56%	\$1,272.71	27.46%	\$1,359.10	22.54%	\$1,608.91	8.30%	\$1,397.65	20.34%
E0277	\$7,933.91	\$5,297.50	33.23%	\$8,846.83	-11.51%	\$6,341.10	20.08%	\$3,912.50	50.69%	\$7,000.00	11.77%
E0570	\$206.22	\$32.24	84.37%	\$53.84	73.89%	\$158.51	23.14%	\$182.00	11.74%	\$160.29	22.27%
E0730	\$365.76	\$165.00	54.89%	\$275.55	24.66%	\$353.45	3.37%	\$645.00	-76.35%	\$334.39	8.58%
E0776	\$142.45	\$50.25	64.72%	\$83.92	41.09%	\$108.62	23.75%	\$39.10	72.55%	\$116.71	18.07%
K0001	\$570.68	\$127.72	77.62%	\$213.29	62.63%	\$456.12	20.07%	\$533.50	6.52%	\$530.00	7.13%
K0011	\$5,270.30	\$2,767.64	47.49%	\$4,621.96	12.30%	\$4,912.16	6.80%	\$5,347.83	-1.47%	\$5,097.40	3.28%

Sources: Centers for Medicare & Medicaid Services, Medicare Fee Schedules, January 2002; Department of Veterans Affairs (VA), Pharmacy Benefit Management, Drug & Pharmaceutical Prices, March 25, 2002; VA, National Acquisition Center, Federal Supply Schedule Contracts, March 2002; Office of Inspector General (OIG), Survey of State Medicaid Agencies, March 2002; OIG Survey of Medical Equipment Suppliers, March 2002; OIG Survey of Federal Employee Health Plans (FEHPs), March 2002

SUMMARY OF POTENTIAL MEDICARE SAVINGS ON 16 MEDICAL EQUIPMENT AND SUPPLY ITEMS

Medicare Code	Item Description	Potential Annual Savings				
		Using Median VA Price without Markup	Using Median VA Price with 67% Markup	Using Median Medicaid Price	Using Median Retail Price	Using Median FEHP Price
A4253	Blood glucose test or reagent strips for home blood glucose monitor, per 50 strips	\$243,720,158	\$74,490,726	\$32,505,947	-\$53,101,317	\$20,347,234
A4259	Lancets, per box of 100	\$16,598,389	-\$7,610,891	\$7,194,217	\$21,962,406	\$2,827,053
A4323	Sterile saline irrigation solution, 1000 ml	\$788,352	\$718,316	\$138,911	\$250,129	\$75,128
B4035	Enteral feeding supply kit; pump fed, per day	\$164,371,251	\$132,370,706	\$0	\$32,191,402	-\$12,511,810
E0135	Walker, folding (pickup), adjustable or fixed height	\$8,384,386	\$3,368,358	\$2,636,590	-\$2,315,945	\$1,904,821
E0163	Commode chair, stationary, with fixed arms	\$28,777,809	\$20,736,171	\$7,646,081	-\$1,027,633	\$3,621,184
E0178	Gel or gel-like pressure pad or cushion, nonpositioning	N/A	N/A	\$426,415	\$54,837	\$199,703
E0180	Pressure pad, alternating with pump	\$1,416,069	\$743,134	\$51,559	-\$645,098	\$179,127
E0181	Pressure pad, alternating with pump, heavy duty	\$957,368	\$705,155	\$112,302	\$50,549	\$105,633
E0260	Hospital bed, semi-electric (head and foot adjustment), with any type side rails, with mattress	\$158,240,834	\$76,826,261	\$63,061,323	\$23,221,339	\$56,906,269
E0277	Powered pressure-reducing air mattress	\$34,337,901	-\$11,893,748	\$20,749,475	\$52,380,024	\$12,162,416
E0570	Nebulizer, with compressor	\$42,892,273	\$37,564,419	\$11,763,982	\$5,968,416	\$11,321,689
E0730	TENS (transcutaneous and/or neuromuscular electrical nerve stimulators), four lead, larger area/multiple nerve stimulation	\$2,591,833	\$1,164,412	\$159,127	-\$3,605,145	\$405,136
E0776	IV pole	\$6,660,646	\$4,228,769	\$2,444,227	\$7,466,469	\$1,859,670
K0001	Standard wheelchair	\$77,752,879	\$62,737,218	\$20,104,358	\$6,531,162	\$7,142,206
K0011	Standard-weight frame motorized/power wheelchair with programmable control parameters for speed adjustment, tremor dampening, acceleration control and braking	\$170,726,189	\$44,218,406	\$24,445,948	-\$5,284,639	\$11,791,575
	TOTAL	\$958,216,337	\$440,367,412	\$193,440,462	\$84,096,956	\$118,337,034

Sources: Department of Veterans Affairs (VA), Pharmacy Benefit Management, Drug & Pharmaceutical Prices, March 25, 2002; VA, National Acquisition Center, Federal Supply Schedule Contracts, March 2002; Office of Inspector General (OIG) Survey of State Medicaid Agencies, March 2002; OIG Survey of Medical Equipment Suppliers, March 2002; OIG Survey of Federal Employee Health Plans (FEHPs), March 2002

APPENDIX 3

COMPARISON OF PRICES BY SOURCE

**2002 Median Medicare Prices Compared to
Median VA Prices without Markup for 16 Items**

**2002 Median Medicare Prices Compared to
Median VA Prices with Markup for 16 Items**

**2002 Median Medicare Prices Compared to
Median Medicaid Prices for 16 Items**

**2002 Median Medicare Prices Compared to
Median Retail Prices for 16 Items**

**2002 Median Medicare Prices Compared to
Median FEHP Prices for 16 Items**

2002 MEDIAN MEDICARE PRICES COMPARED TO MEDIAN VA PRICES WITHOUT MARKUP FOR 16 ITEMS

Medicare Code	Item Description	Median Medicare Price	Median VA Price without Markup	Percentage Difference	Total Medicare Payments (Year 2000)	Potential Annual Savings
A4253	Blood glucose test or reagent strips for home blood glucose monitor, per 50 strips	\$38.32	\$19.50	49.11%	\$496,273,994	\$243,720,158
A4259	Lancets, per box of 100	\$12.68	\$8.69	31.47%	\$52,743,530	\$16,598,389
A4323	Sterile saline irrigation solution, 1000 ml	\$8.68	\$1.02	88.25%	\$893,317	\$788,352
B4035	Enteral feeding supply kit; pump fed, per day	\$10.67	\$2.40	77.51%	\$212,064,573	\$164,371,251
E0135	Walker, folding (pickup), adjustable or fixed height	\$83.43	\$39.36	52.82%	\$15,873,507	\$8,384,386
E0163	Commode chair, stationary, with fixed arms	\$109.74	\$32.30	70.57%	\$40,779,098	\$28,777,809
E0178	Gel or gel-like pressure pad or cushion, nonpositioning	\$120.74	N/A	N/A	\$2,728,185	N/A
E0180	Pressure pad, alternating with pump	\$227.01	\$94.20	58.50%	\$2,420,631	\$1,416,069
E0181	Pressure pad, alternating with pump, heavy duty	\$251.58	\$71.00	71.78%	\$1,333,753	\$957,368
E0260	Hospital bed, semi-electric (head and foot adjustment), with any type side rails, with mattress	\$1,754.55	\$762.10	56.56%	\$279,775,167	\$158,240,834
E0277	Powered pressure-reducing air mattress	\$7,933.91	\$5,297.50	33.23%	\$103,334,038	\$34,337,901
E0570	Nebulizer, with compressor	\$206.22	\$32.24	84.37%	\$50,838,299	\$42,892,273
E0730	TENS (transcutaneous and/or neuromuscular electrical nerve stimulators), four lead, larger area/multiple nerve stimulation	\$365.76	\$165.00	54.89%	\$4,721,867	\$2,591,833
E0776	IV pole	\$142.45	\$50.25	64.72%	\$10,291,480	\$6,660,646
K0001	Standard wheelchair	\$570.68	\$127.72	77.62%	\$100,171,192	\$77,752,879
K0011	Standard-weight frame motorized/power wheelchair with programmable control parameters for speed adjustment, tremor dampening, acceleration control and braking	\$5,270.30	\$2,767.64	47.49%	\$359,499,239	\$170,726,189
TOTAL					\$1,733,741,870	\$958,216,337

Sources: Centers for Medicare & Medicaid Services (CMS), Medicare Fee Schedules, January 2002; Department of Veterans Affairs (VA), Pharmacy Benefit Management, Drug & Pharmaceutical Prices, March 25, 2002; VA, National Acquisition Center, Federal Supply Schedule Contracts, March 2002; CMS, National Claims History File, 2000

2002 MEDIAN MEDICARE PRICES COMPARED TO MEDIAN VA PRICES WITH MARKUP FOR 16 ITEMS

Medicare Code	Item Description	Median Medicare Price	Median VA Price with 67% Markup	Percentage Difference	Total Medicare Payments (Year 2000)	Potential Annual Savings
A4253	Blood glucose test or reagent strips for home blood glucose monitor, per 50 strips	\$38.32	\$32.57	15.01%	\$496,273,994	\$74,490,726
A4259	Lancets, per box of 100	\$12.68	\$14.51	-14.43%	\$52,743,530	-\$7,610,891
A4323	Sterile saline irrigation solution, 1000 ml	\$8.68	\$1.70	80.41%	\$893,317	\$718,316
B4035	Enteral feeding supply kit; pump fed, per day	\$10.67	\$4.01	62.42%	\$212,064,573	\$132,370,706
E0135	Walker, folding (pickup), adjustable or fixed height	\$83.43	\$65.73	21.22%	\$15,873,507	\$3,368,358
E0163	Commode chair, stationary, with fixed arms	\$109.74	\$53.94	50.85%	\$40,779,098	\$20,736,171
E0178	Gel or gel-like pressure pad or cushion, nonpositioning	\$120.74	N/A	N/A	\$2,728,185	N/A
E0180	Pressure pad, alternating with pump	\$227.01	\$157.31	30.70%	\$2,420,631	\$743,134
E0181	Pressure pad, alternating with pump, heavy duty	\$251.58	\$118.57	52.87%	\$1,333,753	\$705,155
E0260	Hospital bed, semi-electric (head and foot adjustment), with any type side rails, with mattress	\$1,754.55	\$1,272.71	27.46%	\$279,775,167	\$76,826,261
E0277	Powered pressure-reducing air mattress	\$7,933.91	\$8,846.83	-11.51%	\$103,334,038	-\$11,893,748
E0570	Nebulizer, with compressor	\$206.22	\$53.84	73.89%	\$50,838,299	\$37,564,419
E0730	TENS (transcutaneous and/or neuromuscular electrical nerve stimulators), four lead, larger area/multiple nerve stimulation	\$365.76	\$275.55	24.66%	\$4,721,867	\$1,164,412
E0776	IV pole	\$142.45	\$83.92	41.09%	\$10,291,480	\$4,228,769
K0001	Standard wheelchair	\$570.68	\$213.29	62.63%	\$100,171,192	\$62,737,218
K0011	Standard-weight frame motorized/power wheelchair with programmable control parameters for speed adjustment, tremor dampening, acceleration control and braking	\$5,270.30	\$4,621.96	12.30%	\$359,499,239	\$44,218,406
TOTAL					\$1,733,741,870	\$440,367,412

Sources: Centers for Medicare & Medicaid Services (CMS), Medicare Fee Schedules, January 2002; Department of Veterans Affairs (VA), Pharmacy Benefit Management, Drug & Pharmaceutical Prices, March 25, 2002; VA, National Acquisition Center, Federal Supply Schedule Contracts, March 2002; CMS, National Claims History File, 2000

2002 MEDIAN MEDICARE PRICES COMPARED TO MEDIAN MEDICAID PRICES FOR 16 ITEMS

Medicare Code	Item Description	Median Medicare Price	Median Medicaid Price	Percentage Difference	Total Medicare Payments (Year 2000)	Potential Annual Savings
A4253	Blood glucose test or reagent strips for home blood glucose monitor, per 50 strips	\$38.32	\$35.81	6.55%	\$496,273,994	\$32,505,947
A4259	Lancets, per box of 100	\$12.68	\$10.95	13.64%	\$52,743,530	\$7,194,217
A4323	Sterile saline irrigation solution, 1000 ml	\$8.68	\$7.33	15.55%	\$893,317	\$138,911
B4035	Enteral feeding supply kit; pump fed, per day	\$10.67	\$10.67	0.00%	\$212,064,573	\$0
E0135	Walker, folding (pickup), adjustable or fixed height	\$83.43	\$69.57	16.61%	\$15,873,507	\$2,636,590
E0163	Commode chair, stationary, with fixed arms	\$109.74	\$89.16	18.75%	\$40,779,098	\$7,646,081
E0178	Gel or gel-like pressure pad or cushion, nonpositioning	\$120.74	\$101.87	15.63%	\$2,728,185	\$426,415
E0180	Pressure pad, alternating with pump	\$227.01	\$222.17	2.13%	\$2,420,631	\$51,559
E0181	Pressure pad, alternating with pump, heavy duty	\$251.58	\$230.40	8.42%	\$1,333,753	\$112,302
E0260	Hospital bed, semi-electric (head and foot adjustment), with any type side rails, with mattress	\$1,754.55	\$1,359.10	22.54%	\$279,775,167	\$63,061,323
E0277	Powered pressure-reducing air mattress	\$7,933.91	\$6,341.10	20.08%	\$103,334,038	\$20,749,475
E0570	Nebulizer, with compressor	\$206.22	\$158.51	23.14%	\$50,838,299	\$11,763,982
E0730	TENS (transcutaneous and/or neuromuscular electrical nerve stimulators), four lead, larger area/multiple nerve stimulation	\$365.76	\$353.45	3.37%	\$4,721,867	\$159,127
E0776	IV pole	\$142.45	\$108.62	23.75%	\$10,291,480	\$2,444,227
K0001	Standard wheelchair	\$570.68	\$456.12	20.07%	\$100,171,192	\$20,104,358
K0011	Standard-weight frame motorized/power wheelchair with programmable control parameters for speed adjustment, tremor dampening, acceleration control and braking	\$5,270.30	\$4,912.16	6.80%	\$359,499,239	\$24,445,948
TOTAL					\$1,733,741,870	\$193,440,462

Sources: Centers for Medicare & Medicaid Services (CMS), Medicare Fee Schedules, January 2002; Office of Inspector General, Survey of State Medicaid Agencies, March 2002; CMS, National Claims History File, 2000

2002 MEDIAN MEDICARE PRICES COMPARED TO MEDIAN RETAIL PRICES FOR 16 ITEMS

Medicare Code	Item Description	Median Medicare Price	Median Retail Price	Percentage Difference	Total Medicare Payments (Year 2000)	Potential Annual Savings
A4253	Blood glucose test or reagent strips for home blood glucose monitor, per 50 strips	\$38.32	\$42.42	-10.70%	\$496,273,994	-\$53,101,317
A4259	Lancets, per box of 100	\$12.68	\$7.40	41.64%	\$52,743,530	\$21,962,406
A4323	Sterile saline irrigation solution, 1000 ml	\$8.68	\$6.25	28.00%	\$893,317	\$250,129
B4035	Enteral feeding supply kit; pump fed, per day	\$10.67	\$9.05	15.18%	\$212,064,573	\$32,191,402
E0135	Walker, folding (pickup), adjustable or fixed height	\$83.43	\$95.60	-14.59%	\$15,873,507	-\$2,315,945
E0163	Commode chair, stationary, with fixed arms	\$109.74	\$112.50	-2.52%	\$40,779,098	-\$1,027,633
E0178	Gel or gel-like pressure pad or cushion, nonpositioning	\$120.74	\$118.31	2.01%	\$2,728,185	\$54,837
E0180	Pressure pad, alternating with pump	\$227.01	\$287.50	-26.65%	\$2,420,631	-\$645,098
E0181	Pressure pad, alternating with pump, heavy duty	\$251.58	\$242.05	3.79%	\$1,333,753	\$50,549
E0260	Hospital bed, semi-electric (head and foot adjustment), with any type side rails, with mattress	\$1,754.55	\$1,608.91	8.30%	\$279,775,167	\$23,221,339
E0277	Powered pressure-reducing air mattress	\$7,933.91	\$3,912.50	50.69%	\$103,334,038	\$52,380,024
E0570	Nebulizer, with compressor	\$206.22	\$182.00	11.74%	\$50,838,299	\$5,968,416
E0730	TENS (transcutaneous and/or neuromuscular electrical nerve stimulators), four lead, larger area/multiple nerve stimulation	\$365.76	\$645.00	-76.35%	\$4,721,867	-\$3,605,145
E0776	IV pole	\$142.45	\$39.10	72.55%	\$10,291,480	\$7,466,469
K0001	Standard wheelchair	\$570.68	\$533.50	6.52%	\$100,171,192	\$6,531,162
K0011	Standard-weight frame motorized/power wheelchair with programmable control parameters for speed adjustment, tremor dampening, acceleration control and braking	\$5,270.30	\$5,347.83	-1.47%	\$359,499,239	-\$5,284,639
	TOTAL				\$1,733,741,870	\$84,096,956

Sources: Centers for Medicare & Medicaid Services (CMS), Medicare Fee Schedules, January 2002; Office of Inspector General, Survey of Medical Equipment Suppliers, March 2002; CMS, National Claims History File, 2000

2002 MEDIAN MEDICARE PRICES COMPARED TO MEDIAN FEHP PRICES FOR 16 ITEMS

Medicare Code	Item Description	Median Medicare Price	Median FEHP Price	Percentage Difference	Total Medicare Payments (Year 2000)	Potential Annual Savings
A4253	Blood glucose test or reagent strips for home blood glucose	\$38.32	\$36.75	4.10%	\$496,273,994	\$20,347,234
A4259	Lancets, per box of 100	\$12.68	\$12.00	5.36%	\$52,743,530	\$2,827,053
A4323	Sterile saline irrigation solution, 1000 ml	\$8.68	\$7.95	8.41%	\$893,317	\$75,128
B4035	Enteral feeding supply kit; pump fed, per day	\$10.67	\$11.30	-5.90%	\$212,064,573	-\$12,511,810
E0135	Walker, folding (pickup), adjustable or fixed height	\$83.43	\$73.42	12.00%	\$15,873,507	\$1,904,821
E0163	Commode chair, stationary, with fixed arms	\$109.74	\$100.00	8.88%	\$40,779,098	\$3,621,184
E0178	Gel or gel-like pressure pad or cushion, nonpositioning	\$120.74	\$111.90	7.32%	\$2,728,185	\$199,703
E0180	Pressure pad, alternating with pump	\$227.01	\$210.20	7.40%	\$2,420,631	\$179,127
E0181	Pressure pad, alternating with pump, heavy duty	\$251.58	\$231.65	7.92%	\$1,333,753	\$105,633
E0260	Hospital bed, semi-electric (head and foot adjustment), with any type side rails, with mattress	\$1,754.55	\$1,397.65	20.34%	\$279,775,167	\$56,906,269
E0277	Powered pressure-reducing air mattress	\$7,933.91	\$7,000.00	11.77%	\$103,334,038	\$12,162,416
E0570	Nebulizer, with compressor	\$206.22	\$160.29	22.27%	\$50,838,299	\$11,321,689
E0730	TENS (transcutaneous and/or neuromuscular electrical nerve stimulators), four lead, larger area/multiple nerve stimulation	\$365.76	\$334.39	8.58%	\$4,721,867	\$405,136
E0776	IV pole	\$142.45	\$116.71	18.07%	\$10,291,480	\$1,859,670
K0001	Standard wheelchair	\$570.68	\$530.00	7.13%	\$100,171,192	\$7,142,206
K0011	Standard-weight frame motorized/power wheelchair with programmable control parameters for speed adjustment, tremor dampening, acceleration control and braking	\$5,270.30	\$5,097.40	3.28%	\$359,499,239	\$11,791,575
TOTAL					\$1,733,741,87	\$118,337,034

Sources: Centers for Medicare & Medicaid Services (CMS), Medicare Fee Schedules, January 2002; Office of Inspector General, Survey of Federal Employee Health Plans (FEHPs), March 2002; CMS, National Claims History File, 2000